SPOTLIGHT: Biotechnology and Life Sciences in Manitoba

FEATURE: Manufacturing in Crisis: The West's Side of the Story

OPINION: How Protectionism Harms the Economy

CURRENTS Western Canada's Monthly Economic Bulletin

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CanadaWest FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

Monthly Economic Highlights

All major economic indicators released this month were down significantly at the national level, in line with Statistics Canada's announcement that the Canadian economy had contracted 0.8% in the last quarter of 2008. Indicators for the West showed slightly worse results than the national averages.

Canada's employment situation deteriorated for the fourth consecutive month in February as job losses reached 83,000, of which 27,300 were in the West. The decline was concentrated in Alberta, where the unemployment rate went up by a full percentage point from January to February, reaching 5.4%, the highest rate in almost six years. Employment fell to a lesser degree in BC, while it made marginal gains in Saskatchewan and Manitoba.

National retail sales dropped 5.4% in December, the largest decline in over 15 years. Except for Manitoba, retail sales in all western provinces fell more than the national average. A 6.2% decline in Alberta was the largest among all provinces.

Canadian wholesale trade fell 3.4% in December, the largest monthly decrease since August 2003. The largest provincial decline was in Saskatchewan (-14.9%) where sales are now one-quarter lower than their August 2008 peak. In the West, only Manitoba (-3.2%) performed better than the national average.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,263	2,002	523	608	16,899	February
% change	-0.2	-1.2	0.1	0.1	-0.5	
Unemployment rate (%)	6.7	5.4	4.7	4.8	7.7	February
change in percentage points	0.6	1.0	0.6	0.2	0.5	
Participation rate (%)	65.8	74.6	70.7	69.6	67.4	February
Average weekly earnings ($)	773.25	888.97	773.63	735.22	801.92	December
% change	-0.4	-1.1	0.4	1.5	-0.1	
Inflation						
Consumer Price Index (% change)*	1.4	1.2	2.4	1.4	1.1	January
Economic Activity						
Housing starts (000s)**	18.1	17.2	3.8	3.6	153.5	January
% change	-21.6	-14.0	-19.1	-43.8	-10.9	
Retail trade ($M)	4,279	4,680	1,135	1,209	32,988	December
% change	-5.6	-6.2	-5.8	-3.2	-5.4	
Wholesale trade ($M)	4,149	5,589	1,498	1,003	42,809	December
% change	-6.1	-6.0	-14.9	-3.2	-3.4	
Manufacturing sales ($M)	2,959	5,033	897	1,306	44,171	December
% change	-8.7	-8.5	-14.2	-2.4	-8.0	

* Compared to same month in the previous year ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels)
Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.

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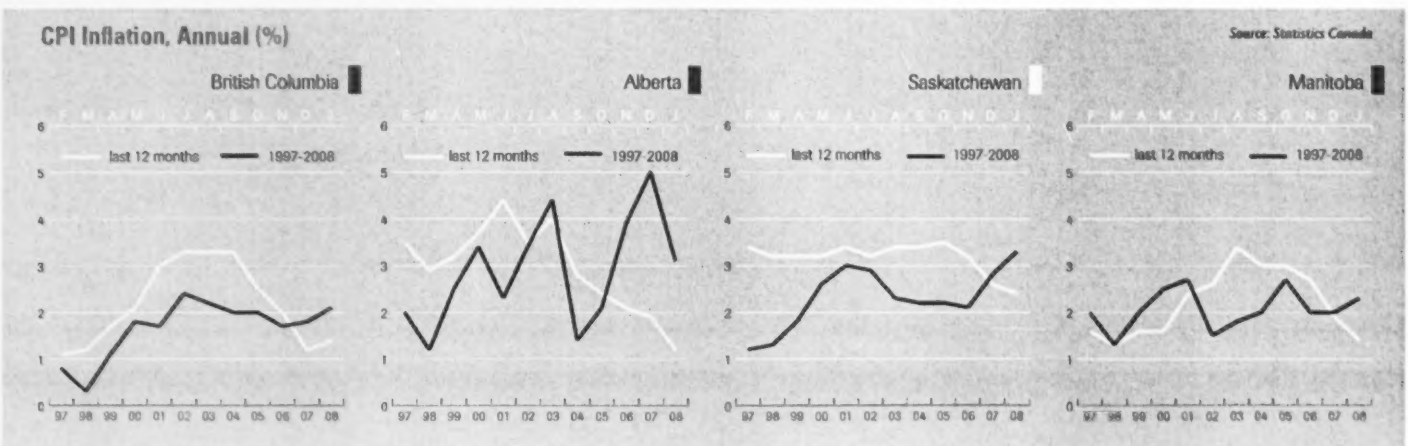
CPI Inflation, Annual (%)
Source: Statistics Canada
British Columbia
Alberta
Saskatchewan
Manitoba
last 12 months
1997-2008
F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J
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Did you know?

- Only one in four Aboriginal people in Canada speaks an Aboriginal language.
- The first regular Canadian transatlantic flights were initiated by Winnipeg's Trans Canada Airlines in 1943, using converted Avro Lancaster bombers.
- The foothills and eastern slope area of southern Alberta is one of the most lightning prone regions in Canada, receiving over half a million strikes a year.
- There are 1,884 islands in the Queen Charlotte Islands archipelago.
- Men who worked on the construction of the Canadian Pacific Railway, which began in the early 1880s, referred to themselves as *boomers* because they traveled from one railway construction boom to another.
- From 1992 to 2005, there was a decline in the proportion of Canadian children who participated in organized sports.

MONTHLY FEATURE

Manufacturing in Crisis: THE WEST'S SIDE OF THE STORY

In a recent issue, the headline on the front page of *The Economist* was unequivocal, announcing "The Collapse of Manufacturing." This assertion is quite striking but essentially right. All over the world, manufacturing activity is declining as a result of lower demand. This problem is not limited to the American auto industry; it is a worldwide one. Inventories are rising, factories are curtailing or stopping production, and governments are being asked to rescue their manufacturing sectors. Manufacturing will not be the same once this downturn is over, and no one is sure of when that will be.

Does this collapse have any impact on the West? We see ourselves mainly as a resource-oriented economy and therefore easily forget about our significant number of manufacturing establishments. Manufacturing is defined as "the physical or chemical transformation of materials or substances into new products." This includes more than the aerospace or bus assembly lines of Winnipeg. The sawmills of BC, the refineries of Alberta and the food processors of Saskatchewan are all manufacturers. Despite this, when one thinks of support policies for manufacturing industries in Canada, the West doesn't spring to mind.

While Canadian manufacturing is dominated by Ontario and Quebec, the West still plays an important role with a 23% share of national sales. Nearly 8% of workers in the West are employed in the manufacturing sector. This proportion

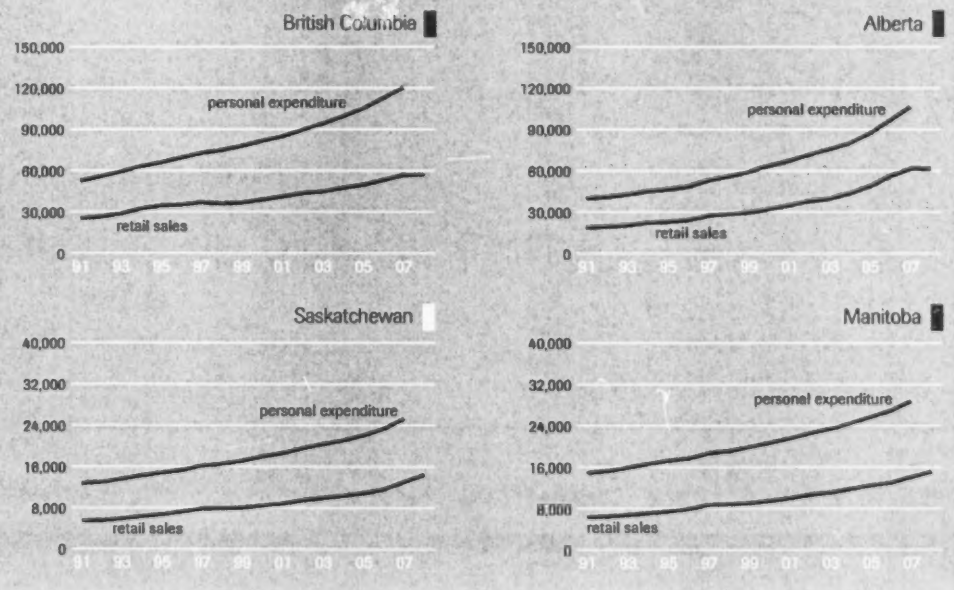
BEHIND THE NUMBERS

In 2008, retail sales were flat in Alberta (-0.2%) and BC (+0.2%), but up significantly in Saskatchewan (+10.4%) and Manitoba (+7.1%). Can we use those results to anticipate the April release of Statistics Canada's provincial growth statistics for 2008? The answer, as usual, is "it depends".

While personal expenditures are the largest component of Gross Domestic Product (GDP), only half of those expenditures are retail sales. The rest is spent mainly on energy, rent, and other services. Extrapolating overall growth in the West based on retail sales is a bit risky because they represent only a fraction of the whole picture.

Retail Sales and Personal Expenditures, 1991-2008 ($ Millions)

Source: Statistics Canada



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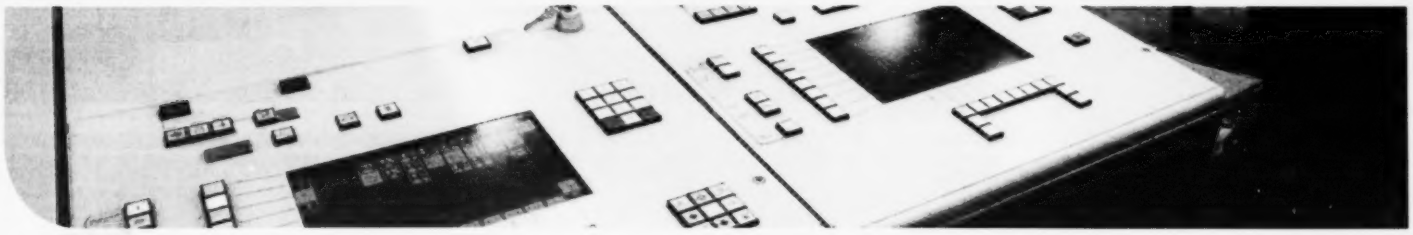


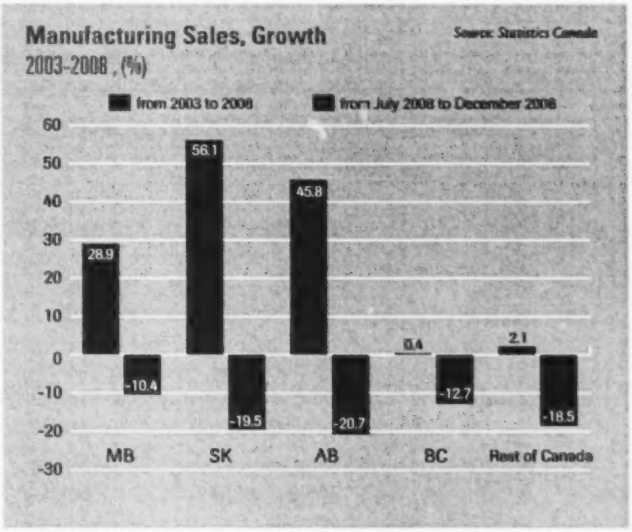
is larger in Manitoba (11%), followed by BC (8%), Alberta (7%) and Saskatchewan (6%).

The West has an important share of manufacturing sales in some specific industries. When taken as a whole and compared to Ontario and Quebec, the West's sales rank first or second in eight of the 21 Canadian manufacturing industries. As of 2008, the West's share of national sales was especially high in important sectors such as petroleum and coal products (approximately 50%), wood products (46%), machinery (33%), food products (29%) and fabricated metal products (28%).

Since the beginning of the manufacturing decline in August 2008, manufacturing sales have been hit as hard in the West as in the rest of Canada. From August to December, manufacturing sales fell 17.1% in the West compared to 18.5% in the rest of the country.

This only represents the most recent trend though. Since 2003, manufacturing sales in the rest of the country grew a modest 2%, while they surged 28% here. Growth in the West was concentrated in Saskatchewan (+56%), Alberta (+46%) and Manitoba (+29%) while BC sales remained essentially unchanged due to difficulties in the wood product sector. Part of the growth in the West (outside BC) resulted from higher commodity prices, but the contrast with the rest of the country remains significant.

So, is manufacturing collapsing in the West as well as elsewhere in Canada and the world? Yes, but only for the past few months. Thanks to the years of strong growth before the current downturn, we're falling from a much higher position. Things could be much worse.



Industry Spotlight: Biotechnology and Life Sciences

Manitoba's biotechnology and life sciences sector is quickly gaining attention. Anchored by a biomedical technology cluster in Winnipeg, the number of life sciences-related jobs in Manitoba surged tenfold (+960%) between 1989 and 2004.

The cluster started in 1992, when the National Research Council (NRC) opened the Institute for Biodiagnostics. Through its work in the commercialization of innovative technology, the cluster has so far created five technology spin-off companies, including IMRIS Inc., which produces magnetic resonance imaging (MRI) systems. In 2005, NRC opened the Centre for Commercialization of Biomedical Technology, which provides research facilities and innovation services for up to 40 companies and technology organizations.

Manitoba's biotechnology and life sciences sector is also a leader in the areas of infectious disease identification and management. The Public Health Agency of Canada, the International Centre for Infectious Diseases, and the Canadian Science Centre for Human and Animal Health all operate out of Winnipeg.

Major employers in the sector include Apotex Fermentation Inc., Vita Health, Cangene Corporation, Monsanto Canada Inc., and Biovail Corporation.

photo credit: Apotex Fermentation Inc.

Specialist in fermentation-based Active Pharmaceutical Ingredients (APIs) at Apotex Fermentation Inc. in Winnipeg, MB

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The Return of the Son of Protectionism Strikes Again

by Jacques Marcil, Senior Economist

At the end of his short visit to Ottawa last month, on his way back to the airport, US President Barack Obama got out of his armoured limo (nicknamed "The Beast") and bought some baked goods and souvenirs. In a way, his touristic purchases mirrored some of what he had said earlier in a press conference: he was willing to "buy Canadian."

Obama's words (and actions) had been scrutinized by Canadians with good cause. A few days before his Ottawa visit he had signed a stimulus package to re-launch the US economy. Some sections in that package appeared to awaken a very different type of beast: protectionism. The most explicit section was the "Buy American" clause regarding "iron, steel and manufactured goods" used for the "construction, alteration, maintenance, or repair of a public building or public work."

Exports are a great benefit to Canada's economy but they also put us at the mercy of our trading partners. The problem with US-Canada trade is that whenever politics south of the border mess with trade economics, politics win. Despite the huge amount of trade between us, our mutual history is littered with trade "wars," the most recent (and the most damaging to the West) being the softwood lumber war. It has been more than 20 years since the US signed a free trade agreement with Canada, but the American political system of checks and balances still allows someone to be elected County Dogcatcher General by promising to limit the reach of international trade agreements. (Yes, I'm exaggerating here.)

Protectionism has run rampant under our neighbour's skin for a long time. Thanks to their incredible endowment of talent and natural resources as well as a large population which can act as its own market, the US can afford, if not to be completely protectionist, then at least to play the protectionist game.

Economics 101 teaches us that protectionism is a bad thing. By imposing barriers (such as tariffs) on imports, it reduces competition, hampers domestic consumers' purchasing power and increases costs for local businesses. Furthermore, protectionism can trigger retaliation from trading partners and launch a "race to the bottom" with no clear winner. We now know that high tariffs helped put the "Great" in the 1930s Depression. Our current recession has enough traits in common with the big bad one from 70 years ago as things stand now. We don't need any more!

In that regard, President Obama's record is not completely clean. As he was campaigning in economically depressed areas of Pennsylvania during the Democratic Primaries, candidate Obama issued a few statements about free trade and nearly sounded like those old-fashioned Democrats who wooed blue collar votes by promising tariff protection for their industries. Fortunately, that was then, this is now. When in Ottawa, Obama was very clear: any provision in the US stimulus package must comply with trade agreements between the US and other countries as well as with World Trade Organization regulations.

Canada has never looked back after signing the Canada-US trade agreement. In fact, we signed additional deals with Mexico, then Chile, and are pushing for more. Not only is it now part of our national make-up to promote free trade, we also have a legislative process that would make it virtually impossible for a backbench MP to push a protectionist piece of legislation from start to finish. The US president may be the most powerful man in the world, but from a law-making point of view, our prime minister is more powerful!

It's a good thing that this protectionist episode was brought up and publicly nipped in the bud during the Harper-Obama meeting. This is positive news, not just for Canadian steelmakers, but for Canada as a whole.

However, we must remain vigilant: the protectionist beast will never be killed for good.